Department of Public Service

Financial Audit
For the Period July 1, 1992, through June 30, 1995

September 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-36

Centennial Office Building, Saint Paul, MN 55155 ● 612/296-4708

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Kris Sanda, Commissioner
Department of Public Service

We have audited the Department of Public Service (department) for the period July 1, 1992, through June 30, 1995, as further explained in Chapter 1. Our audit scope included telephone and utility assessments, inspection fees, employee payroll and other administrative expenditures, and federal grants. We did not audit the Telecommunications Access for Communication Impaired Persons (TACIP). TACIP became part of the Department of Public Service in fiscal year 1996, which was outside the scope of this audit. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the department complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the department is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and management of the department. This restriction is not intended to limit the distribution of this report, which was released as a public document on September 6, 1996.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 8, 1996

Report Signed On: September 3, 1996

State of Minnesota
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Department of Public Service

Full Scope Financial Audit
For the Period July 1, 1992, through June 30, 1995

Public Release Date: September 6, 1996 No. 96-36

Background Information

The Department of Public Service (department) is chiefly responsible for enforcing state laws and policies governing public utilities, the conservation of energy, and the standardization of weights and measures. The department is organized into four divisions: Telecommunications, Weights and Measures, Energy, and Information and Operations Management. Kris Sanda has served as the commissioner of the department since January 1991.

Audit Scope and Objectives

We audited the following financial activities of the department for the three years ended June 30, 1995: telephone and utility assessments, inspection fees, employee payroll and other administrative expenditures, and federal grants. Our audit objectives included reviewing internal controls over material financial activities of the department and determining compliance with significant laws and regulations.

Conclusions

The department appropriately set and collected fees for services performed, except that it has not fully recovered the costs of the Weights and Measures Division as required by Minn. Stat. Section 239.101. Additionally, the department needs to bill telephone and utility companies more frequently. Currently, it only bills direct expenses semi-annually. The department adequately safeguarded and properly recorded receipts in the statewide accounting system. However, the department needs to restrict computer programmers access to the assessment database.

The department processed payroll and administrative disbursements in accordance with applicable laws and regulations. These expenditures were made for a proper purpose and were accurately recorded in the statewide accounting system.

The department administered federal grant expenditures in accordance with applicable regulations. The department has met all reporting, matching, and subrecipient monitoring requirements associated with the federal grants it received.

**Contact the Financial Audit Division for additional information.
296-1235**

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Tony Toscano	Auditor-in-Charge
Karen Klein, CPA	Auditor
Fubara Dapper, CPA	Auditor
Chege Ngigi	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Public Service on August 19, 1996. We also noted other matters involving the internal control structure and compliance with laws and regulations that we reported to management of the department at this meeting.

Kris Sanda	Commissioner
Ruth Grendahl	Deputy Commissioner
Bill Janisch	Manager, Administrative Services
Mim Stohl	Director, Accounting
Mike Blacik	Director, Weights and Measures
Dennis Ahlers	Attorney General Representative

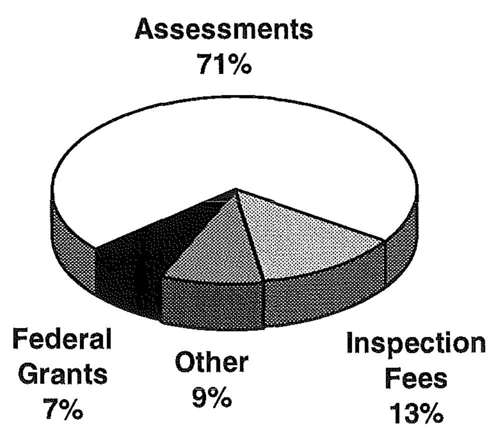
Chapter 1. Introduction

The Minnesota Legislature established the Department of Public Service in 1968 as an umbrella agency to provide administrative and enforcement resources to the Public Service Commission. In 1980, the department and the renamed Public Utilities Commission were separated, establishing two state agencies. Kris Sanda has served as the commissioner of the department since January 1991.

According to the department, its mission is to protect the public interest by regulating utilities and safeguarding Minnesota's environment and quality of life. The department is chiefly responsible for enforcing state laws and policies governing public utilities, the conservation of energy, and the standardization of weights and measures. The department is organized into four divisions: Telecommunications, Weights and Measures, Energy, and Information and Operations Management.

The department's primary funding sources are General Fund appropriations, dedicated funds from telecommunication analysis and investigations, and federal grants. The department received appropriations of $7,923,000, $9,090,000, and $8,950,000 in fiscal years 1993, 1994, and 1995, respectively. The department collected revenues of $6,633,635 in fiscal year 1993, $7,759,721 in fiscal year 1994, and $6,459,393 in fiscal year 1995, totaling $20,852,751. Note that the department had an additional direct cost billing in fiscal year 1994 which accounts for the increase in revenues in that year. Figure 1-1 shows a breakdown of revenues by type for the audit period.

Figure 1-1
Revenues by Type
for the Three Fiscal Years Ending 1995



Source: Statewide Accounting System.

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The department incurred expenditures of $32,002,513 during the three-year audit period. Payroll for the three years totaled $18,581,288, or 58 percent of all department expenditures. Table 1-1 shows the amount of department expenditures by type for the audit period. The other category of expenditures includes repairs, printing, communications, loans made by the department for energy improvements (from federal Exxon funds), and indirect costs. The reason for the increase in other expenditures in fiscal year 1994 is attributable to the volume of loans processed by the department in that year.

Table 1-1
Expenditures by Type and Fiscal Year

	1993	1994	1995
Expenditures:			
Payroll	$ 6,116,034	$ 6,171,175	$6,294,079
Supplies and equipment	1,541,364	1,098,041	818,477
Federal grants*	1,358,209	1,902,904	1,088,602
Professional services	480,084	625,845	244,988
Rent	399,019	543,055	521,569
Travel	177,654	184,985	189,167
Other expenditures	623,092	1,027,386	596,784
Total Expenditures	$10,695,456	$11,553,391	$9,753,666

* Note: Federal grants include Exxon money received prior to the audit period.

Source: Cash basis amounts recorded on the statewide accounting system from July 1992 through June 30, 1995.

Chapter 2. Assessment and Inspection Fee Revenues

Chapter Conclusions

The department appropriately set and collected fees for services performed for telephone and utility companies; however, the department has not fully recovered the costs of the Weights and Measures Division. Additionally, the department needs to bill telephone and utility companies more frequently for direct expenses. Currently, it only bills direct expenses semi-annually. The department adequately safeguarded and properly recorded receipts in the statewide accounting system. However, the department needs to restrict computer programmers access to assessment database.

The department is responsible for enforcing state policies regarding the evaluation of public utilities and the standardization of weights and measures. Both telephone and utility assessments and inspection activities are almost entirely fee-funded. Fee-funded means that the regulated companies and industries reimburse the department for the applicable administrative costs incurred. Table 2-1 shows the detail of the revenues collected by the department for the audit period.

Table 2-1
Revenues by Type and Fiscal Year

	1993	1994	1995
Revenues:			
Assessments (1)	$4,488,960	$5,721,779	$4,502,885
Inspection fees	708,090	923,117	1,126,626
Master lease (2)	475,000	244,000	0
Investment income (2)	266,672	166,622	130,294
Other Revenue	197,274	177,332	224,399
Total	$6,135,996	$7,232,850	$5,984,204

(1) Assessments include attorney general fees recovered for telephone and utility investigations.

(2) The Master Lease program and investment income are audited as part of our annual Statewide Audit. The department used master lease receipts to purchase vehicles and equipment for the Weights and Measures Division.

Source: Amounts recorded on the statewide accounting system.

Scope, Objectives, and Audit Procedures

For the three years ended June 30, 1995, we focused on the following objectives for telephone and utility assessments and inspection fees:

Department of Public Service

- Were the fees collected by the department assessed in accordance with statutory requirements?

- Were the fees collected by the department adequately safeguarded and properly recorded on the statewide accounting system?

As part of our audit, we interviewed agency staff to gain an understanding of the controls in place over the collection of telephone and utility assessments and inspection fees. We also selected samples from telephone and utility assessments and inspection fees to verify that the proper fee was collected and deposited in the State Treasury. We discuss the department's procedures for administering telephone and utility assessments, inspection fees, and our audit conclusions on these programs in the following sections.

Telephone and Utility Assessments

The department's Energy and Telecommunication Divisions are responsible for determining that public utilities comply with the laws governing the gas, electric, and telephone industries. The department also reviews companies' rate requests and supporting evidence when companies file for rate increases. This helps to ensure that the rates charged to consumers are justified and reasonable. Minn. Stat. Sections 216B and 237 authorize the department to assess telephone and utility companies for the work it performs in regulating those companies.

Telephone and utility assessments are based on both direct and indirect costs. The department maintains accounting records to identify the direct costs it incurs by company. Employees account for time spent working on specific company cases. The department bills the indirect costs of its divisions based on the proportion of each company's revenue to the total revenues of all regulated companies. The department calculates bills for direct costs every six months and bills for indirect costs on a quarterly basis. Indirect costs are billed in advance.

We concluded that the department adequately safeguarded and properly recorded telephone and utility receipts in the statewide accounting system. It properly assessed telephone and utility companies for services performed, as required by statute. The department needs, however, to bill telephone and utility companies more frequently for direct expenses, as discussed in finding 1. In addition, the department needs to restrict computer programmers from access to the production area of the assessment database. We address this issue in finding 2.

1. Prior Finding Partially Implemented: The department did not bill telephone companies and public utilities for direct costs in a timely manner.

The department continues to only bill telephone and utility companies for direct costs on a semi-annual basis. Minn. Stat. Section 216B.62, Subd. 2, and 237.295, Subd. 1, requires telephone and utility companies to pay expenses for investigations, appraisals, and services. In our last audit report, dated August 1992, we recommended that the department bill public utilities and telephone companies more timely and more frequently. At that time, the department was only billing companies semi-annually, but it also took up to eight months after the department incurred the costs to complete the billing process.

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In response to our prior audit concerns, the department automated some aspects of the billing process. Due to problems encountered in automating the billing system, however, such as computer staff turnover, the billing system continues to be largely a manual process. Although the department has shortened the length of time to complete the billing process from eight months to four months, there continues to be a significant delay in recovering the department's costs. In addition, the department is still only billing companies semi-annually. During fiscal year 1995, the department collected approximately $1.9 million in direct assessments. Because the billings are not made in a more timely manner, the state potentially loses several months of investment income on the assessments.

We believe that since the majority of the direct-billed costs are payroll, which is processed bi-weekly, and with the availability of computer technology including electronic spreadsheets and interfaces between department and statewide (MAPS and SEMA 4) computer systems, the department should be able to bill companies more frequently and minimize the time it takes to complete the billing process.

Recommendation

- *The department should complete the automation of the assessment process and use computer technology wherever possible to replace manual processes and thereby improve the timeliness and frequency of billings.*

2. Computer programmers had unlimited access to the assessment system database.

The department allowed its computer programmers unlimited access to production data in the assessment database. We believe that this practice subjects important and sensitive data to an unnecessary risk of loss or misuse.

Computer programmers do not typically work with production data. Rather, they work with test data in a special test environment. On some occasions, programmers need access to production data to perform maintenance functions. However, these occasions are rare and do not merit giving the programmers continuous and unrestricted access. Allowing computer programmers unrestricted access to the assessment database subjects the department to increased risks that the system and underlying data could be intentionally or unintentionally corrupted. We feel that it would be more appropriate to only give programmers the access they need to perform their normal job duties. The department could then control all other special access requests on a case-by-case basis.

Recommendation

- *The department should restrict the computer programmers access to actual production data or develop alternate methods of protecting the information in the assessment database.*

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Weights and Measures

The Division of Weights and Measures is responsible for supervising and controlling all weights, weighing devices, and measures in Minnesota. Minn. Stat. Section 239.011, Subd. 1, outlines the division's responsibilities and powers as follows:

- to ensure that weights and measures in commercial service within the state are suitable for their intended use, properly installed, accurate, and properly maintained by their owners or users;

- to prevent unfair or deceptive dealing by weight or measure in a commodity or service advertised, packaged, sold, or purchased within the state; and

- to adopt weights and measures requirements that will protect consumers, promote equity between buyers and sellers, and encourage desirable economic growth.

The department is required by statute to recover the costs of its yearly inspections by charging fees to the owners of inspected equipment.

We concluded that the department adequately safeguarded and properly recorded inspection fees in the statewide accounting system. The department did not, however, recover all of the costs it incurred for inspections conducted by the Weights and Measures Division as required by statute. Finding 3 highlights this issue.

3. The department did not fully recover the costs of the Weights and Measures Division.

As of June 30, 1995, the department had unrecovered costs associated with the Weights and Measures Division of approximately $977,000. Minn. Stat. Section 239.101 requires the department to recover the amount appropriated to the weights and measures program by charging a fee to owners for inspecting and testing weights and measures equipment.

Although the department fully intends to recover these costs, it has experienced significant delays in obtaining fee increases in a timely manner. The department initiated a process to revise the inspection fees in February 1994. At the time of our audit, the fee increase was still pending. Many factors, such as changes in the rule-making process and proposed fee increases being protested by the public (which required an administrative hearing) which were beyond the control of the department, have added to the delays. By not adopting fee increases in a timely manner, the department has not recovered the costs of the Weights and Measures Division as required by statute.

Recommendation

- *The department needs to ensure the timely adoption of fee increases in order to fully recover the costs of the Weights and Measures Division.*

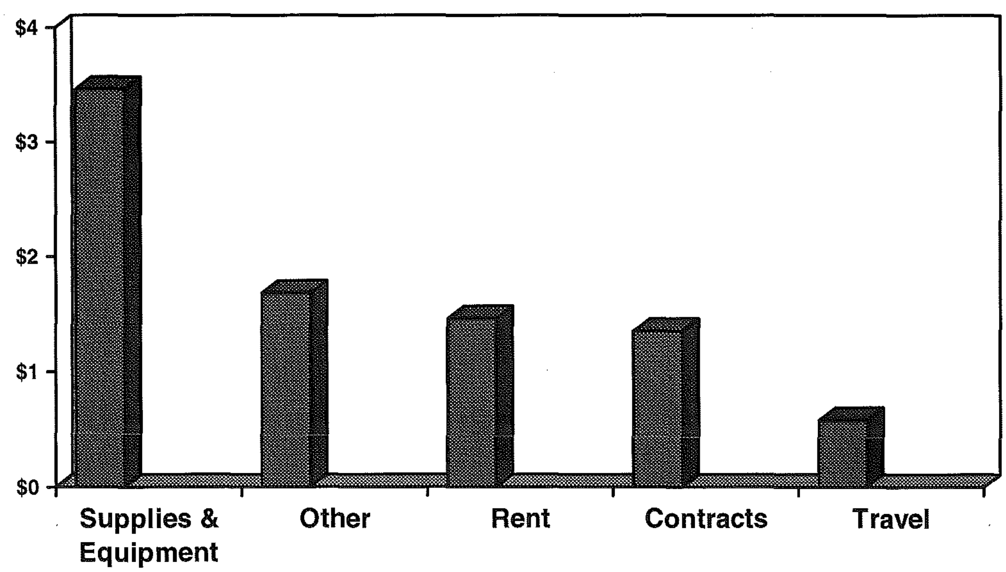
Chapter 3. Payroll and Other Administrative Expenditures

Chapter Conclusions

The department processed payroll in accordance with applicable bargaining unit agreements and properly recorded payroll transactions in the statewide accounting system. In addition to department payroll, other administrative disbursements were authorized, made for a proper purpose, and accurately recorded in the statewide accounting system.

The department's largest expenditure is payroll. The department employs over 130 employees and payroll costs account for approximately 58 percent of department expenditures. The administrative services section processes payroll for the department. The administrative services section also processes other administrative expenditures after they are approved in the respective divisions. Figure 3-1 summarizes the department's administrative expenditures other than payroll, by type of expenditure for the audit period. The majority of the other category in the figure includes repairs, printing, communications, and indirect costs.

Figure 3-1
Fiscal Year 1993-1995
Administrative Expenditures Other than Payroll
by Type (in Millions)



Source: Statewide accounting system.

Department of Public Service

Payroll

We focused our review of payroll on the following objectives:

- Were department payroll expenditures processed in accordance with applicable bargaining unit agreements?

- Were payroll transactions properly recorded in the state's accounting system?

Our audit approach included interviewing agency staff to gain an understanding of the controls in place over payroll. We analyzed payroll expenditures and tested regular classified payroll and regular unclassified payroll. During our testing of classified and unclassified payroll, we reviewed time sheets, leave slips, bargaining unit agreements, and leave records.

Based on our review of payroll, we concluded that department employees were paid at the amounts according to the applicable bargaining unit agreements, and the payroll transactions were properly recorded in the state's accounting system.

Other Administrative Expenditures

Our audit also included other administrative expenditures. We addressed the following objectives:

- Were administrative expenditures authorized and made for a proper purpose?

- Were administrative expenditures made in accordance with applicable laws and regulations?

The methodology we used to audit administrative expenditures included interviewing agency personnel to gain an understanding of the controls in place. We performed analytical reviews to determine the classes of administrative expenditures that were material or posed the most risk and performed additional tests on those expenditure types. As a result, we focused out testing on the following areas: rent, professional services, travel, and supplies and equipment.

We concluded that administrative expenditures were authorized, made for a proper purpose, and complied with applicable finance-related legal provisions.

Chapter 4. Federal Grants

Chapter Conclusions

The department processed federal grant expenditures in accordance with applicable federal regulations. The department met matching requirements associated with the federal grants it received. Additionally, the department had established procedures for monitoring federal grant subrecipients.

The department is required, by law, to coordinate Minnesota's energy conservation programs. The department has developed and coordinated energy programs to increase energy efficiency and effectiveness and reduce energy consumption in the state. The department's efforts have focused on administering programs that provide information and technical assistance to a wide variety of individuals and groups and that provide financing to selected building sectors.

The department operates several energy conservation programs with federal funds. The department prepares and submits annual spending and work plans to the federal Department of Energy (DOE). DOE's approval of spending annual plans is required prior to receiving federal funding. The department received approximately $497,640, $526,872, and $475,190 in federal revenue for fiscal years 1993, 1994, and 1995, respectively.

Federal expenditures by program are presented in Table 4-1. The amounts are primarily grants, but include costs incurred in administering the programs such as payroll and travel. In addition to the amounts reflected in the table, the department issued loans for energy improvements (from federal Exxon funds) of $43,546, $379,636, and $95,825 in fiscal years 1993, 1994, and 1995, respectively.

Table 4-1
Federal Expenditures by Program and Fiscal Year

Program Name/ CFDA #	1993	1994	1995
State Energy Conservation Program (CFDA # 81-014)	$ 197,450	$ 238,719	$ 333,369
State Energy Conservation Program (Exxon) (CFDA # 81-014)	1,340,909	1,865,781	793,743
Institutional Conservation Program (CFDA # 81-052)	41,746	52,058	41,626
Council of Great Lakes Governors (CFDA # 81-079)	20,870	107,897	77,201
Wind/Solar Study (CFDA # 81-502)	0	11,946	10,077
Other Federal Programs	225,677	155,132	7,176
Total	$1,826,652	$2,431,533	$1,263,192

Note: Federal grants include Exxon money received prior to the audit period.

Source: Cash basis expenditures recorded on the statewide accounting system from July 1, 1992 to June 30, 1995.

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Scope and Objectives

We focused our review of federal grants on the following objectives:

- Did the department have controls in place to ensure that expenditures made using federal funds were allowable under the terms of the grants?

- Did the department meet the matching requirements associated with the federal grants?

- Was the department in compliance with the grant's reporting requirements?

- Were there procedures to monitor grant subrecipients?

Audit Procedures and Results

We interviewed agency staff to gain an understanding of the controls in place over federal grants. We performed analytical reviews to determine which of the programs were material. We analyzed the types of expenditures financed with federal funds to determine if they were allowable under the terms of the federal grant agreements. We performed detail testing of selected grant expenditures. We analyzed the total state and federal expenditures made during the audit period to ensure that federal matching requirements were being met. Our work on these nonmajor federal programs was less than required for major Single Audit programs.

We concluded that the expenditures made by the department were allowable under the terms of the grant agreements. The department is meeting the applicable matching requirements of the various grants. Additionally, the department is in compliance with the reporting requirements of the grants and has established procedures to monitor grant subrecipients.

MINNESOTA
DEPARTMENT OF
PUBLIC SERVICE

OFFICE OF THE COMMISSIONER

August 23, 1996

Mr. Jim Riebe
Audit Manager
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Riebe:

This is the Department of Public Service's (DPS) formal written response to the audit findings.

Recommendation: *The department should complete the automation of the assessment process and use computer technology wherever possible to replace manual processes and thereby improve the timeliness and frequency of billings.*

The DPS has completed about 85 to 90 percent of the automation of the assessment process. The only two components remaining to be completed are:

(1) the computerized allocation of direct costs where the direct costs apply to groups of companies rather than individual companies; and

(2) the computerization of the process of checking companies whose bills exceed the statutory maximum billing rate.

The DPS plans to complete these components by June 30, 1997.

There is, however, one remaining obstacle to improving the timeliness of the assessment process. Management of accounts receivable is currently a manual process which consumes a significant amount of time in preparing assessment billings.

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The DPS has always planned to utilize the accounts receivable component of the State's new MAPS accounting system. According to the Finance Department, this system was to be designed to accept receivables from external billing systems. Initially this was to be available when the system was implemented. Later they said it would not be available upon implementation, but would be the highest priority after the initial system implementation. However, it is now over one year since MAPS was implemented and we have no indication as to when MAPS will be ready to accept receivables from external billing systems.

As we discussed in the exit interview, the DPS calculates the optimum billing cycles to be between three and four months. This is the point where the additional costs that are associated with billing more frequently equal the additional revenue from interest earnings associated from the earlier collection of receipts.

The DPS will be able to implement the optimal quarterly assessment billing cycle as soon after June 30, 1997 as the MAPS system is modified to accept billings from external billing sources.

Recommendation: *The department should restrict computer programmers access to actual production data or develop alternate methods of protecting the information in the assessment database.*

Since the DPS has only three computer staff at the St. Paul office and only one of them is an experienced FoxPro database programmer, it is more practical to use alternate methods of protecting information in the assessment database.

As an alternate method, the DPS will acquire computer software that will monitor access to the production database so that we will know who and when modifications are made to the assessment production system. This will be accomplished by December 30, 1996.

The DPS will also implement the auditors' recommendation that the Department develop a documentation procedure for granting and rescinding staff access to DPS databases. This will be implemented on or before December 30, 1996.

Recommendation: *The department needs to ensure the timely adoption of fee increases in order to fully recover the costs of the Weights and Measures Division.*

As your report points out, the administrative hearing process for setting fees creates a tremendous time lag for implementing fee increases beyond the control of the DPS. Your recommendation does not provide a recommended solution for the time lag problem caused by the administrative hearing process. The DPS does not have the answer, either.

Unless the Legislature modifies the administrative hearing law for fees set based on cost, the DPS will only be marginally able to reduce the time lag in implementing fee increases based on the experience gained in this first cycle under the new law.

Since the administrative procedures for implementing cost-based fees are the same for all state agencies, perhaps the Legislative Auditor could study this problem as a neutral third party and recommend to the Legislature statutory changes that will expedite the process and reduce the time lag in implementing cost-based fee increases.

Thank you for the recommendations to improve our fiscal process.

Sincerely,

Krista L. Sanda

KRISTA L. SANDA
COMMISSIONER

KLS/WHJ/jl